

Autumn 2024 Budget Review Newsletter

October 2024

Over the past few months, the financial landscape has been marked by relentless speculation and uncertainty. This has created an uneasy environment for clients and advisers, with some individuals making pre-emptive decisions ahead of yesterday's budget, while others waited to see what changes Rachel Reeves would announce. One thing that is certain, the run up to yesterday's budget has been more challenging than any other we can remember.

Unlike previous budgets, featuring dramatic announcements and unexpected changes, yesterday's main tax raising announcement of a rise in employer National Insurance was well publicised. As were the headline changes to capital gains tax.

The key revelation that unused pension funds and death benefits will now be within the IHT net, albeit not until April 2027, adds additional complexity to intergenerational planning. Though hopefully, this is another opportunity where financial advice and planning will show its worth to clients.

Summary Features of the October 2024 Budget

Income Tax

Although a two-year extension to frozen income tax thresholds was anticipated, the government have decided they will not extend the freeze beyond 2028. From April 2028, these will once again increase in line with inflation.

The Starting Rate for Savings will remain at £5,000 for 2025-26. This allows individuals with less than £17,570 in earned and/or pensions income to receive up to £5,000 of savings income tax free.

Capital Gains Tax (CGT) & Business Asset Disposal Relief (BADR)

As expected, the main rates of CGT are increasing to 18% for basic rate taxpayers, and 24% for higher and additional rate taxpayers with immediate effect – for disposals on or after 30 October 2024. These new rates now align to residential property rates, which were confirmed to remain unchanged. The £3,000 Annual Exempt Amount remains unchanged. Trustees and personal representatives will pay the higher rate of 24%.

In addition to the main rates, there are two reliefs which offer access to a lower rate of CGT. These are Business Asset Disposal Relief (BADR), and Investors' Relief (IR). The rate for both BADR and IR will rise to 14% from 6 April 2025 and then to 18% from 6 April 2026. In addition, the lifetime limit for Investors' Relief will be reduced to £1 million, matching the lifetime limit for Business Asset Disposal Relief.

There was no change to the rumoured CGT uplift on death.

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Inheritance Tax – Changes to Business Property Relief & Agricultural Property Relief

The current inheritance tax thresholds were already frozen until April 2028, and it was announced that this will be extended for a further two years to April 2030. Therefore, the nil rate band of £325,000 and residence nil rate band of £175,000 will be in place for another 5 years. Qualifying estates can continue to transfer unused nil rate bands to surviving spouses enabling up to £1million of wealth transfer without an inheritance tax liability.

In addition, the government will reform agricultural property relief and business property relief from April 2026. In addition to the nil rate bands above, the 100% relief on qualifying agricultural and business assets will continue but will be limited to the first £1million of combined assets. Above this limit, agricultural and business assets will attract 50% relief, paying 20% inheritance tax.

Unlisted shares (AIM for example) will also suffer a reduction in the relief they receive. Instead of 100% relief on qualifying shares, the rate of relief will be 50% resulting in a 20% rate of inheritance tax.

To help with the increasing inheritance tax burden, the inheritance tax service will be digitalised from 2027-28 to provide a modern, easy-to-use system, making returns and paying tax 'simpler and quicker'.

National Insurance (NI)

NIC Rates will increase from 13.8% to 15% from 6 April 2025. Furthermore, the point at which employers become liable to pay NICs on employees' earnings will reduce from £9,100 a year to just £5,000 a year from 6 April 2025 until 6 April 2028, and then increase by CPI thereafter.

To help smaller businesses with this additional cost, the Employment Allowance will be increased from £5,000 to £10,500. The £100,000 threshold for eligibility will also be removed, expanding this to all eligible employers with employer NICs bills from 6 April 2025.

Individual Savings Account (ISA)

Annual subscription limits will remain at £20,000 for ISAs, £4,000 for Lifetime ISAs and £9,000 for Junior ISAs and Child Trust Funds until 5 April 2030.

It was also confirmed that the British ISA will not proceed.

Pensions

Before the budget, speculation was rife that the amount of tax-free cash that a person could receive would be reduced. Fortunately, this did not come to fruition. The changes in relation to pensions were:

Unused pensions funds and death benefits subject to IHT

The most significant announcement was that, from 6 April 2027, most unused pension funds and death benefits will be included in the value of a person's estate for IHT purposes.

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It is intended that pension schemes will be required to report and pay IHT due. HMRC have launched a consultation to seek views on the process, which they will respond to and carry out a technical consultation on draft legislation in 2025. However, our initial reaction is that, from April 2027, the time taken to pay claims could be materially increased because of information exchanges between a pension scheme and the personal representatives of the deceased's estate.

In Summary:

- The change will apply to both defined contribution and defined benefit registered pension schemes, and to Qualifying Non-Uk Pension Schemes (QNUPS). A small number of pension benefits will remain outside the scope of IHT including dependants scheme pensions and charity lump sum death benefits.
- The income tax treatment of death benefits before and after age 75 appear to apply as they do today.
- Any IHT charge due will be calculated and deducted from unused funds and death benefits first. For deaths post age 75, beneficiaries will then be subject to income tax, at their marginal rate, on the remaining funds whether taken as a lump sum or pension income. Similarly, for pre-age 75 deaths, any lump sums paid after 2 years are subject to marginal rates of income tax.
- It is proposed Pension Schemes will have to meet the deadline of paying the IHT charge within 6 months of the end of the month in which the death occurred. After this point late payment interest begins to accrue on the IHT due from the pension funds.

Reducing tax-free overseas transfers of tax relieved UK pensions

Taking effect immediately, there are changes to the taxation of transfers to Qualifying Recognised Overseas Pension Schemes QROPS to close a loophole that was inadvertently introduced by the abolition of the lifetime allowance. That loophole theoretically could enable an individual to double their tax free allowances. The loophole was closed by amending the overseas transfer tax charge (OTC) rules.

Currently, a tax charge, known as the overseas transfer charge, is applied on funds transferred from a registered pension scheme to a QROPS. There are exemptions to the tax charge if you met any of the following:

- Both the member and the QROPS are in the same country.
- Both the member and the QROPS are within the UK, Gibraltar or European Economic Area (EEA).
- The QROPS is provided by the members employer.

From 30 October 2024, the exemption for the member and the QROPS being within the UK, Gibraltar or EEA has been removed.

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VAT on private school fees

As widely expected, fees for private education services will be subject to VAT at the standard rate of 20% from 1 January 2025. This will also apply to boarding services provided by private schools.

Stamp duty

It was announced that there would be an increase in the higher rates for Additional Dwellings of Stamp Duty Land Tax from 3% to 5% from 31 October 2024. These higher rates apply to purchases of second homes, buy-to-let residential properties and companies purchasing residential property. The policy intent is that those looking to move home or purchase their first property will have a comparative advantage over those purchasing additional property.

Those who exchanged contracts prior to 31 October 2024 are not affected by this rate increase.

Summary

Clearly, there have been many fundamental changes in legislation for all to consider, with the pension changes having the most widespread impact on our clients. We will be working with investment providers over the coming weeks, and putting together plans for us to discuss with you at your next review meeting date.

Please refer to the tax table below to see all of the noted changes:

| | 2024 - 2025 tax year | 2025 - 2026 tax year | Frozen until (where known) |
|-------------------------------------|----------------------|----------------------|----------------------------|
| Individuals | | | |
| Income tax bands | | | |
| Basic | £1 - £37,700 | £1 - £37,700 | Apr-28 |
| Higher | £37,701 - £125,150 | £37,701 - £125,140 | |
| Additional | Over £125,140 | Over £125,140 | |
| Income tax rates (main rate) | | | |
| Basic | 20% | 20% | Apr-28 |
| Higher | 40% | 40% | |
| Additional | 45% | 45% | |
| Starting rates for savings income | 0% | 0% | |
| Income tax rates (dividends) | | | |
| Basic | 8.75% | 8.75% | Apr-28 |
| Higher | 33.75% | 33.75% | |
| Additional | 39.35% | 39.35% | |

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| | 2024 - 2025 tax year | 2025 - 2026 tax year | Frozen until (where known) |
|---|--|--|--|
| Income tax allowances | | | |
| Personal allowance | £12,570 | £12,570 | Income tax allowances frozen to April 2028 |
| Starting rate for savings income | £5,000 | £5,000 | |
| Dividend allowance | £500 | £500 | |
| Personal savings allowance | £1,000 (BR) £500 (HR) £0 (AR) | £1,000 (BR) £500 (HR) £0 (AR) | |
| Capital gains tax rates | | | |
| Main rates for individuals | Up to 30 October 2024: 10% / 20% On or after 30 October 2024: 18% / 24% | 18% / 24% | |
| Residential property | 18% / 24% | 18% / 24% | |
| Business Asset Disposal Relief rate | 10% | 14% | |
| Capital gains tax allowances | | | |
| Annual exempt amount | £3,000 | £3,000 | |
| Entrepreneurs' Relief - Lifetime limit | £1,000,000 | £1,000,000 | |
| Inheritance Tax | | | |
| Nil rate band | £325,000 | £325,000 | Apr-30 |
| Residential nil rate band (RNRB) | £175,000 | £175,000 | |
| Rate (estates) | 40% | 40% | |
| Reduced rate (10% of estate to charity) | 36% | 36% | |
| Lifetime Rate (CLTs) | 20% | 20% | |
| Business / Agricultural Relief | | | |
| Limit for 100% relief | N/A | £1,000,000 | |
| Rate applicable over relief limit | N/A | 20% | |
| Income tax bands | | | |
| Standard rate band | £1,000 | N/A | |
| | | | £500 tax free if total trust income is below this level. |
| Trusts | | | |
| Income tax rates | | | |
| Trust main rate | 45% | 45% | |
| Trust dividend rate | 39.35% | 39.35% | |
| 0% income tax band: | Total income below £500 | | |
| Capital gains tax allowances | | | |
| Annual exempt amount | £3,000 | £1,500 | |
| Capital gains tax rates | | | |
| Main rate | 24% | 24% | |
| Residential property | 24% | 24% | |
| Corporation Tax | | | |
| Corporation tax | 19% (profits under £50,000) | 19% (profits under £50,000) | |
| | 25% (profits over £250,000) | 25% (profits over £250,000) | |
| | Companies with profits between £50,000 and £250,000 will be tapered between 19% and 25%. | Companies with profits between £50,000 and £250,000 will be tapered between 19% and 25%. | |
| ISAs | | | |
| Adult ISA Allowance | £20,000 | £20,000 | |
| Junior ISA Allowance | £9,000 | £9,000 | |